

60 Years
Social Market Economy[®]

Jena Manifesto for the Renewal
of the Social Market Economy

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Übersetzung: Ann Robertson

FOREWORD

Ludwig Erhard wrote, »Regardless of all kinds of interests and group wishes, the aim of the Social Market Economy is a healthy economy which secures the existence of the whole population and enables each individual to share in the national product in accordance with their achievement.« The Konrad-Adenauer-Stiftung has been committed to this aim from the very beginning. This applies even more so in the anniversary year 2008, in which we are commemorating in many ways the introduction of the Social Market Economy 60 years ago.

Ludwig Erhard and his colleagues successfully created the general conditions for a »healthy economy« designed to serve the individual and the common good. Their model for success, the Social Market Economy, led to unprecedented prosperity, first in the west and later in the east of Germany, and was a guarantee for social cohesion and social compensation. However, in view of the challenges that we are now facing, all of the surveys indicate that there are increasing doubts in our economic system.

What has to happen for the Social Market Economy to regain its magnetism? What has to be done, so that it reawakens greater confidence in the future? Which contributions can the principles of the Social Market Economy make to create a »healthy economy« at the beginning of the 21st century in the sense of its founding fathers? These were the questions that stimulated the authors of the Jena Manifesto for the Renewal of the Social Market Economy, and the Konrad-Adenauer-Stiftung as one of the joint initiators, to mutually table demands for the vitalization of our economic system. They are documented in this publication.



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It is 60 years in June this year since the economic and currency reform laid the foundations of the Social Market Economy and set Germany on its path to post-war recovery. It marked the beginning of a previously unimaginable success story; the Social Market Economy became one of the best known international trademarks. It proved its superiority when the East German regime finally submitted in the »competition of the systems« after 1989. Neither the socialist planned economy, nor the socialist image of the human being with their accompanying ethics of so-called social justice were able to secure the prosperity and freedom of the people. Despite the summoning of all the state's powers, it proved impossible to prevent the people from aspiring to freedom and pursuing their own non-dictated interests.

After 1990 the Social Market Economy was extended to the area of former East Germany; however, many of the companies were unable to shoulder the accompanying financial burden. The young federal states are still suffering from the transition today. Meanwhile, the foundations of the Social Market Economy are threatening to collapse in general. Socio-political patronization restricts the citizens' freedom and weakens our country's economic and social potential. For this reason, German economic research institutes and think tanks, associations representing small and medium-sized businesses, political foundations, citizens and politicians are calling for the courage to venture out of social immaturity and to shape our state as a liberal, social and just body politic again. The manifesto is being declared from Jena, because Jena is closely linked with two of the fathers of the Social Market Economy: it is the birthplace of Walter Eucken and the city where Wilhelm Röpke held his first professorship.

JENA MANIFESTO

FOR THE RENEWAL OF THE SOCIAL MARKET ECONOMY

1. THE IMAGE OF THE HUMAN BEING IN THE SOCIAL MARKET ECONOMY STEMS FROM THE WESTERN CHRISTIAN TRADITION

»Human dignity shall be inviolable. To respect and protect it shall be the duty of all state authority.« This is the first article of our constitution, the Basic Law for the Federal Republic of Germany. The German people gave itself this Basic Law on the strength of its constituent power: »Conscious of their responsibility before God and man«. All people are equal in the eyes of God. Consequently, Christian and humanist-liberal teachings lay emphasis on the personality of the human being. The individual should not be regarded as a malleable object in the hands of collectivist social planners, or as an exploitable resource for particularistic economic interests and politicians who already consider redistribution as an acceptable form of social policy. The human being has to be free in order to be able to assume responsibility in the eyes of God as well as for him or herself. Human dignity also includes the possibility of making one's own living, in so far as the individual is capable of this. Above all, self respect arises from work and preoccupation.

A community is more than a collection of individuals. As »social beings« humans are certainly prepared to contribute public spirit to a community. In the long term no society is able to survive without public spirit. The human being's dual nature – wanting to be free in order to prove oneself and at the same time feel safe as an integral part of a community for which one is also prepared to make an effort – is the basis of the Social Market Economy. Of course, public spirit should not be overexerted otherwise people feel they are being exploited. If the state increasingly regulates a society through collective redistribution, it stifles private initiative. Public spirit withers.

Wilhelm Röpke: *»The measure of the economy is the human being; the measure of the human being is his relationship to God.«*

2. FREE COMPETITION, SAFEGUARDED BY A COMPETITIVE ORDER, CREATES »PROSPERITY FOR ALL«

Embedded in a democratic constitutional state, the Social Market Economy is the social system which corresponds with the Christian image of the human being as well as the principles of liberal-humanist thought. Since time immemorial people have been spurred on to greater achievements through the pursuit of happiness and the desire to

be individually useful. In keeping with the social nature of humans this striving has continuously led to higher forms of cooperation – up to the highly complex division of labour with electronic payments in global markets. The increasingly sophisticated division of labour and specialization, together with the accompanying progress in technology, have made enormous increases in productivity possible. These form the decisive basis of prosperity for all. This requires free competition protected from power concentrations by a strong state, in other words free access to the market for everyone where they can offer goods and services. The market is the people's day-to-day vote on the services offered to the customer by the entrepreneur. Only those are successful who satisfy the needs of the consumers. Thus, the effects of a market economy system are also social.

This applies particularly to family businesses where entrepreneurs feel themselves personally responsible towards their staff. In the end it pays off when they think beyond the present. When there are long-term perspectives the employees identify with their company, they are more strongly motivated and consequently more productive. In a sense they repay the entrepreneur's loyalty to the company with a greater willingness to work. Politics also has to think beyond the present and keep a keen eye on the concerns of the owners of small and medium-sized enterprises and the skilled workers. They are the backbone of our society.

Ludwig Erhard: *»Prosperity for all and prosperity through competition belong together inseparably; the first postulate is the goal, the second is the path that leads to this goal.«*

3. A REDISTRIBUTION STATE IS NOT A SOCIAL MARKET ECONOMY

Alfred Müller-Armack, who coined the term »Social Market Economy«, understood it as the combination of freedom in the market and social balance. This is not an arbitrary mixture, but a political idea regarding economic systems. Within a competitive economy it endeavours to combine free initiative with social progress which is safeguarded precisely by market economy achievements. For this reason a system of social security has to correspond with the principle of staying in line with the market. Since the market signals the urgency of needs and the scarcity of resources via price mobility and thus also provides the stimuli for innovations (F. A. v. Hayek's formula of

»competition as a discovery procedure «), redistribution contrary to the market destroys the basis which creates »prosperity for all«.

Within the framework of a social policy which stays in line with the market it is appropriate to personal dignity that each individual is at first personally responsible, i.e. they are *primarily* responsible for making their own living. Each individual must still have sufficient leeway to make private provisions for the future and accumulate assets. This is a decisive precondition for a social system in which the individual assumes responsibility and also feels responsible for his or her fellow human beings. When he or she is incapable of earning the necessary income, then the mutual support of the community comes into effect. Initially these are families, church institutions and other self-help organizations. The whole of the mutual support community is *ultimately* responsible for guaranteeing the humanly fitting subsistence level of each and every person. The individual's ability to work plays a decisive role in the relationship between *subsidiary primary responsibility* and *supportive ultimate responsibility* of the community based on the principle of solidarity. The community's duty to mutually support a person who is incapable of working and incapable of helping himself, because of disability or age, is not the same as the duty towards an able-bodied person who can help himself and is thus bound by a self-help obligation. In the development of social policy we call on the policy-makers to make a strict differentiation between insurance benefits based on the achievement principle and financed by contributions on the one hand, and tax-financed benefits based on the principle of social need on the other.

Wilfried Schreiber: *»Therefore, we call for a clear, indeed radical separation between social insurance reform and all measures concerning public welfare and provision. These are two fundamentally different tasks which consequently need different treatment and have to be placed under different legislation.«*

4. MORE FREEDOM IN THE LABOUR MARKET CREATES MORE JOBS AND MORE OPPORTUNITIES

Social commitment creates competitive jobs. We need jobs so that our enterprising young people are not forced to emigrate; we need jobs in order to finance essential social benefits and support; we need jobs in order to finance the obligations of the

future – pensions, care, health. Sufficient gains have to be made today and in the future from each job in order to meet these challenges. Productivity and the number of jobs are decisive. This is the core of the Social Market Economy, and putting it into practice is a social, political and indeed cultural necessity. It demands a break with familiar patterns of behaviour and compels politics to turn its mind back in reflection and to seek reorientation. The reassuring thing is that the solution to the problem lies in our hands; the disturbing thing is that many people see the solution as more threatening than the problem.

Germany's labour market problem still lies in the fact that the labour market is not regarded as a market, but as an object of socio-political operations. For instance, when industrial tribunals focus on the employee's need for protection without considering the related overall economic consequences, they are obviously looking at the relationship between employee and employer from a »David versus Goliath« perspective. They have a clear conscience when they help David to win a victory over the supposedly superior Goliath. Too rarely do they consider that the sum of such decisions weakens the financial strength and the adaptability of the companies involved, and it undermines their possibility of asserting themselves in the international competition context.

A minimum subsistence income is an integral part of the Social Market Economy. In view of foreseeable financial challenges to the social security systems with their clearly incorrect incentives and increasingly confusing complexity, the time has come for the scientific and political analysis of new concepts, such as negative income tax, »flat tax«, »citizens' insurance« and basic income. Minimum wages would be detrimental to the employed, because they create more unemployment. The decisive factors of increased earned income are economic growth and better education and training.

In Switzerland the labour market is treated like a market. As a result the proportion of unemployment is only one third that in Germany. At the same time the Swiss level of employment, both for men and women, is far higher. The length of the working life is also much longer than in Germany. But nobody would say that the Germans are more stupid or lazy. We can no longer afford the luxury of prematurely retiring highly qualified employees. We call on the policy-makers to respect the mechanisms of the labour market, so that jobs are created and prosperity is increased for the individual and society as a whole.

Ludwig Erhard: *»...Individuals can only be truly free as a personality and truly free vis-à-vis the state when they can rest assured that they are able to survive on the strength of their own achievements and their own labour, with neither protection nor hindrance from the state.«*

5. DRAWING ON THE WHOLE RANGE OF POTENTIAL TALENT – OPENING UP OPPORTUNITIES FOR THE PEOPLE

Our levels of social benefits are among the highest in the world. However, an expanded redistribution policy fails in one major societal aspect: it paralyzes the desire to achieve social advancement in broad sections of the population. This is a serious symptom in our society.

Individual wellbeing is decisively influenced by the goals people set for themselves and the satisfaction they feel on achieving them. This is an essential driving force in the dynamics of the economy. Policy-makers must stimulate individual initiative and thus contribute to greater self-confidence. The opposite is happening under the present conditions. Achievement motivation is being stifled, because many people discover that there is little or no reward for their own efforts to find work. On the other hand the effect of this type of policy, which constantly draws on the earning power of the existing jobs with compulsory social security contributions, is that it grows increasingly difficult to become involved in society through one's own achievements: companies offer too few traineeships; young people who are aiming to work are systematically discriminated against in comparison to those who already have a job, and the alternatives of working abroad are often more attractive, especially for younger people.

Policy-makers must say goodbye to the backward-looking concept of social justice – drawing funds from existing jobs and redistributing them – and devote themselves to a forward-looking form of social justice. Our view of this lies in the opening up of opportunities whilst people are in education and training and during their working lives. It includes boosting people's determination to grasp the available opportunities as well as their ability to persevere through difficult phases. Ideas of freedom and self-responsibility and the accompanying ability to see life's adversities as a challenge develop first in the family, then at school and in further education. The willingness to

exercise freedom and self-responsibility has little to do with social status, inherited abilities and physical or intellectual gifts. It is the determination of each individual to face up to the challenges of life.

19th century social history shows us the direction we have to take. Workers education associations helped to improve social advancement. If we examine the epochs and countries where such advancement was possible, we can see what we are lacking, or where we have a surfeit, in the sense of deadening individual incentives. We call on policy-makers to give people more responsibility for their own way of life again, and to give them the opportunity to make their own fortune in our country.

Ludwig Erhard: *»I want to prove myself under my own steam. I want to take my own risks in life; I want to be responsible for my own fate. So make sure, state, that I am in a position to do this.«*

6. THE STATE SYSTEM MUST STRENGTHEN PARENTS IN PERFORMING THEIR RIGHT AND DUTY TO EDUCATE THEIR CHILDREN.

Everyone is dependent on learning how to independently earn the minimum amount needed to exist. This is a right without which no person can live and maintain his or her human dignity. But the right to education embraces more than simply developing the ability to work. It is about developing a young person's whole personality, his conscience and heart. A one-sided economic understanding of education would be fatal because, especially in a globalized economy and a pluralistic society, young people must have the opportunity to mature into integrated (also religiously and culturally) personalities and to develop an ethical form of judgement.

According to the principle of subsidiarity the *primary* responsibility for the upbringing and education of children lies with their parents. According to the Christian image of the human being and Germany's Basic Law, the upbringing and education of children is »the natural right of parents and a duty primarily incumbent upon them« (Basic Law Art. 6 para. 2). In keeping with the solidarity principle this »right to education« is seen as the *ultimate* responsibility of the entire community. The state system must strengthen parents in performing their right and duty to educate their children. The portions of parental income needed not only to secure the existence of themselves and their children but also to ensure the realization of their children's right to education,

may not be claimed by the state. They constitute existence-securing expenditure and as such should not be liable to taxation. The same applies to portions of income that adults spend on further education and training in order to secure or improve their earning capacity. The appropriate tax-free allowances should be made for the different phases in life and education. If parents are not in a position to independently earn the means necessary to realize their children's rights, then society is obliged to provide the lacking funds according to the principle of solidarity. Family and educational policy and the financing thereof must be given absolute priority as an assignment of society as a whole.

A balance is needed between the principle of *primary* responsibility for providing one's own livelihood and that of one's children along with the pursuit of suitable employment, and the primacy of the parental right to be in charge of their children's upbringing and education. The decisive criterion in weighting childcare and employment is the child's wellbeing. Sovereignty of decision lies with the parents. The community and the state play a supportive role, whilst in the case of child abuse or neglect they have a protective function. Flexibility and freedom of choice in the day-to-day operations of companies must enable parents to combine the raising of their children with their job in an individual way. The state system, society and the economy must be organized in a family-friendly way, as opposed to the family being organized in a work-friendly way.

A child who is unable to speak fluent German on the first day at school, or has difficulty in formulating complete sentences, difficulties with social skills or concentration, often has little chance of ever compensating these deficits. The young person may manage to find a traineeship, but the prospect of studying is virtually excluded. Thus there has to be a shift in emphasis during pre-school education, away from looking after and minding to raising and educating children. Since, in keeping with the principle of subsidiarity, the *primary* responsibility for raising and educating lies with the parents, they have the right to organize this education for their children under their own initiative and responsibility. This includes the founding and maintenance of the appropriate educational institutions as well as the freedom to choose which educational facility the children should attend. But the state – in Germany it is each federal state – has the right and the duty to specify and implement standards on the basis of *ultimate* responsibility.

Alexander Rüstow: *»The human being is by nature a social being; the attachment to his family and the group in and with which he lives, is instinctive and inborn; culture has partially deepened this attachment and partially extended it to further circles of mutual support – the extended family, the clan, the tribe, the people, the nation.«*

7. A FINANCIAL POLICY BASED ON STABILITY RULES IS PROSOCIAL

A stable currency safeguards the social effects of a competitive system, an inferior currency undermines them. When people save to make provisions for emergencies or their old age, then they trust in the stability of the currency. Inflation destroys this trust and undermines the credibility of the state. Even price rises of »just« two per cent halve the value of financial assets after 35 years. A stable currency also disciplines politics, because a lack of expenditure discipline drives up interest rates and deters businesses from investing in future jobs. Budgetary discipline eases the central bank's difficult task of calculating a money supply geared towards stability. A stable currency and solid finances are two sides of the same coin.

The Deutsche Bundesbank has gained and consolidated its reputation in Germany and the world through its general stability course which it has pursued often in the face of political resistance. The bank has introduced such a course into the European central banking system, where the people of Greece, Italy, Spain, Ireland... have 'inherited' it in the form of a historically low level in interest rates. This heritage is constantly under threat from political pressure. This is the reason we underline the commitment of the European Central Bank (ECB) to price stability. This creates a basic reliability which, in the long term, is the best employment policy. In order to combat the development of 'bubbles' (asset price inflation), we recommend devoting greater attention to the calculation of the money supply again. This would also strengthen the ECB's stabilization policy position against political pressure.

Walter Eucken: *»Experience shows that a monetary constitution which gives the leaders of monetary policy a free hand credits them with greater abilities than can generally be attributed to them. Ignorance, weakness towards interest groups and public opinion, incorrect theories, they all influence these leaders to the great detriment of the task that has been entrusted to them.«*

8. GLOBALIZATION REPRESENTS A TEST BED FOR NATIONAL REGULATORY POLICIES

The collapse of the Soviet empire opened up a new dimension of free trade as a basic requisite of globalization. The accompanying division of labour and growth in productivity not only fosters prosperity, it also links up peoples through a network of mutual interests which in turn increases the opportunity for peace. Germany in particular profits from globalization as the world export leader. One often hears that because globalization is changing the world, it is putting the concepts on which politics are based to the test. This is true. In a more globally open world entrepreneurs and the working population can make use of the alternatives in other countries. More and more highly qualified young people are making use of this opportunity. It is mistaken to think that globalization is heralding the end of national policies, because the major companies operate on an international scale while national policies are restricted to national jurisdiction. In the final analysis, international competition for the settlement of business boils down to assessing the regulatory policy in the countries in question. Governments have lost their regulatory monopoly. But this does not mean that they are now mercilessly exposed to the storms of globalization.

The increased intensity in competition holds both opportunities and risks: markets are expanding, productivity is increasing, but competitive pressure is also rising. For this reason the government has to reduce regulatory intensity, so that businesses can react flexibly to global challenges; it has to promote capital accumulation within companies and the resulting creation of jobs, so that our well-qualified young people are not compelled to emigrate. The government has to invest in the education and training of our young people, the majority of whom are exceedingly willing to work, in order to be constantly one step ahead in international competition through innovation. We have to accept that competition increases as the developing and newly emerging economies gain the ability to enter the international markets as strong competitors. At the same time their growing spending power turns them into potential customers for our goods and services. In this way prosperity can benefit all.

Wilhelm Röpke: *»Consequently, as long as we have no World State the world has no choice but to resort to the only existing solution... the liberal solution of a true world economy with its multilateral character.«*

9. PRESERVING CREATION IS A GENUINE CONCERN OF THE SOCIAL MARKET ECONOMY

Environmental protection is a worldwide concern. Consequently a global approach, as displayed in the efforts of the Kyoto Protocol, is right. However, this should not prevent any country, and particularly Germany, from playing a pioneering role. Harmony between mankind and nature, between industry and the humane shaping of the environment was a central concern of the fathers of the Social Market Economy. Walter Eucken was early to point out the need to correct the accountability of businesses whenever they neglect the environmentally damaging effects of agricultural or industrial production.

When environmental pollution is seen as a market failure, it creates the impression that the market economy is to blame for this dreadful situation and that salvation lies in state regulatory measures. The opposite is true: environmental damage occurs, because there is no market in which the opposite side is able to present the bill for polluting the environment. For this reason there should be something like a »trustee for nature«, who would represent these rights against polluters. It would then be a matter of considering which measures are suitable – emissions permits, tax solutions or even state requirements – depending on the situation in hand. In such cases the economic and social circumstances involved also have to be taken into consideration. Over-enthusiastic environmental protection reduces a location's international competitiveness, thus undermining the foundations which provide and guarantee prosperity, social benefits and of course the funds for environmental protection. Emphasis has to be laid on economic efficiency precisely in the interests of environmental protection. Therefore, we call on policy-makers to utilize competition as a method of discovering the appropriate answers to eco-political challenges.

Alfred Müller-Armack: »The state should remember its specific tasks for creating a concrete environmental framework, ... in order to integrate the always dynamic forces of the economy and transportation within a sensible form of life in general.«

10. WHAT WE NEED TODAY: THE RELEASE OF CITIZENS FROM SOCIAL DEPENDENCE

It is very tempting to escape into the arms of the caring Leviathan »state« on account of worries about becoming unemployed or uncertainty about one's career. But this is an illusion, because the state can only pretend to offer comprehensive protection from the adversities of life. The state uses a specific technique when offering its paternalistic care: it conceals the accompanying costs and mainly leaves it up to others to produce the necessary funds. Governments must be obliged to inform their citizens of the real costs of their social systems. If all wage elements, including the ancillary labour costs, were paid out in full and citizens paid all their taxes and contributions themselves, they would feel the whole scope of the burden. They would be open to alternatives and even pressure policy-makers to introduce reforms.

Some of the contributions are returned to the insured persons in the form of payment in kind – especially in medical care. The individual citizen then never discovers how the system functions and how expensive it really is. Two hundred years ago payment in kind was customary in the business economy: part of the wage was received in the form of payment in kind, partly to prevent the employee from »blowing« all of his money on payday. This system was abolished, because it was no longer considered fitting for a society of mature citizens. The fact that today's citizens' freely disposable income is proportionally far less than two centuries ago is apparently not considered objectionable, because the state is responsible now. But dependence remains dependence, irrespective of who is responsible. We call on the policy-makers to make the costs of the social benefit systems transparent for the citizens and not to obstruct their path to social maturity.

People's ingenuity in using the services of collectively financed social systems to the full, thus causing them to collapse, will be refocused on sustainability once they have greater personal responsibility. In this case individual creativity contributes to the benefit of all.

Ludwig Erhard: *»It is far more sensible to direct all of an economy's available energies towards increasing the returns of that economy, than it is to wear them down in battles over the distribution of the returns and thus be forced away from the only productive path of increasing the national product.«*

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